

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**SURVEY REPORT ON DEFENSE HOTLINE
ALLEGATION REGARDING EXCESSIVE PRICES PAID
BY THE U.S. ARMY FOR NIGHT VISION DEVICES**

Report No. 93-155

August 20, 1993

Department of Defense



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

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MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Survey Report on Defense Hotline Allegation Regarding Excessive Prices
Paid by the U.S. Army for Night Vision Devices (Project No. 3AG-8010)

Introduction

We are providing this report for your information and use. The report addresses concerns that the methodology used by the U.S. Army Communications-Electronics Command (the Command) to procure night vision devices from certain contractors from calendar years 1985 to 1992 resulted in excessive costs to DoD. In a letter to the DoD Hotline, dated November 3, 1992, a complainant (a potential subcontractor) alleged that contractors who were fulfilling most of the Government's needs for night vision devices had paid excessive prices for optical components purchased from a certain foreign subcontractor. The Command, located at Fort Monmouth, New Jersey, procures a variety of night vision devices used by aviators and ground troops. The complainant alleged that the methodology used by the Command to procure these night vision devices resulted in excessive costs to the Government.

Survey Results

Our review did not substantiate the allegation that the Command paid excessive prices for night vision devices from 1985 to 1992. Furthermore, our review of the preaward process, which included an independent Government cost estimate, showed the contract prices to be fair and reasonable. We also concluded that selection of subcontractors could not be dictated by the Command.

Objective

The overall objective was to determine the adequacy of U.S. Army procedures for acquiring night vision devices. Specifically, we assessed the allegation that from calendar years 1985 to 1992, the Army paid excessive prices for night vision devices procured from certain contractors.

Scope of Survey

In addressing the allegations raised by the complainant to the Defense Hotline, we focused on three multiyear contracts that were awarded by the Command from 1985 to 1992 for various night vision devices. We reviewed contracts and related documents dated from 1984 to November 1992. In addition, we

reviewed the Command's procurement policies and procedures. We also reviewed congressional laws and DoD regulations regarding restrictions on procuring night vision devices from foreign sources. We visited various Army activities and conducted interviews with various officials within the Office of the Secretary of Defense. Enclosure 1 lists the organizations visited or contacted.

This economy and efficiency survey was made from May 10 to June 17, 1993, in accordance with the auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and accordingly included such tests of internal controls as were considered necessary.

Internal Controls

Internal controls related to the Command's contracting practices and procedures were considered adequate. No material internal control weaknesses were disclosed.

Prior Audit Coverage

No known prior audits of the Command's contracts for procuring night vision devices were done by the General Accounting Office, the Office of the Inspector General, or the Audit Agencies of the Military Departments for the past 5 years.

Discussion

The complainant alleged that DoD could have saved at least 20 percent on its total procurement for night vision devices if effective procurement methods had been used. The Army used a closed procurement process that restricted the number of bidders and resulted in only five contractors bidding for the contract.

We did not substantiate the allegation that the methodology used by the Command for procuring night vision devices resulted in excessive cost to the Government. We found the preaward process used to select contractors for the three multiyear contracts was extensive and complete. The Government's cost estimate for each of the three contracts was higher than the awarded contract prices. Additionally, the Government's cost estimates and the contract award prices declined with each successive multiyear contract. Further, we observed that although the complainant was invited to bid on other similar contract requirements, he never responded.

Management Comments

A draft of this report was provided to management within the Command, Control, Communications, and Intelligence Acquisition Center, U.S. Army Communications-Electronics Command, Fort Monmouth, New Jersey, for their review and comments. Because no recommendations were made in this report, comments from management were not required. Management elected not to respond.

The courtesies extended to the audit staff are appreciated. If you have questions on this audit, please contact Mr. James L. Koloshey, Program Director, at (703) 614-6225 (DSN 224-6225) or Mr. Eddie J. Ward, Project Manager, at (703) 614-6222 (DSN 224-6222). Enclosure 2 lists the distribution of this report.

A handwritten signature in black ink, reading "Robert J. Lieberman". The signature is fluid and cursive, with the first name "Robert" and last name "Lieberman" clearly legible.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology, Washington, DC

Department of the Army

Office of the Assistant Secretary of the Army for Research, Development and Acquisition, Washington, DC

U.S. Army Communications-Electronics Command, Fort Monmouth, NJ

U.S. Army Night Vision and Electro-Optics Laboratory, Fort Belvoir, VA

Contractor

Center for Optics Manufacturing, University of Rochester, Rochester, NY

Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology

Department of the Army

Inspector General, Department of the Army
Assistant Secretary of the Army for Research, Development and Acquisition
Commander, U.S. Army Communications-Electronics Command, Fort Monmouth, NJ

Non-Defense Organizations

Office of Management and Budget
U.S. General Accounting Office, National Security and International Affairs Division,
Technical Information Center

Chairman and Ranking Minority Member of Each of the Following Congressional
Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations

Audit Team Members

Donald E. Reed

Director, Acquisition
Management Directorate

Thomas F. Gimble

Deputy Director

James L. Koloshey

Program Director

Eddie J. Ward

Project Manager

Stephen J. Bressi

Team Leader

Benedicto M. Dichoso

Auditor

Mary Ann Hourclé

Editor

Phyllis E. Brooks

Administrative Support